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The Iranian Crisis: International Economic Fallout [redacted]

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The US decision to block official Iranian monetary assets in US banks here and abroad coupled with Iran's technical default on several loans and its threat to blacklist the use of the US dollar have sent shock waves reverberating throughout the international community. These measures have: (a) created confusion in the international banking system in its dealings with Iran, impeding Tehran's ability to import; (b) drawn the West Europeans, Japanese, and other allies reluctantly into the financial dispute and sent several of them scurrying to capitalize on the situation; (c) raised concern among OPEC members over the security of their foreign assets; (d) led Iran and Libya to demand that OPEC unsheathe the oil weapon; and (e) raised questions about the future role of the dollar as an international reserve currency. [redacted] 25X1

While much of the confusion in international economic circles would abate quickly once the crisis between Iran and the United States were resolved, the dispute has longer term implications for all parties involved. For Iran, the protracted hiatus in its international economic affairs will mean a downturn in coming months from an already depressed level of economic activity. The United States may find that OPEC members will intensify their efforts to diversify their foreign investment portfolios; if the block on Iranian assets spreads to other countries before the dispute is resolved, OPEC members may feel even more strongly that keeping their oil in the ground is the most prudent policy. As for the Japanese and the West Germans, they may have to deal with growing pressures to internationalize their currencies. [redacted] 25X1

Monetary and Trade Problems

Theoretically, the US order blocking Iranian monetary assets should not impede international economic transactions with Iran. In practice, however, confusion on the part of the Iranian banks and general uncertainty over the present situation among Western traders and bankers -- largely inspired by intemperate and ill-chosen remarks made by high Iranian officials -- are creating problems for all parties concerned. As a result, oil revenues continue to flow into blocked accounts, and some foreign companies and banks are unwilling to accept letters of credit (L/C) for exports to Iran. [redacted] 25X1

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The reluctance of international bankers to open new lines of credit with Iran stem from fears of not being paid. 25X1 In particular, the banks do not wish to comply with the Iranian requirement that L/Cs be drawn on Iranian banks. They are afraid that possible massive loan defaults by Iran would trigger blocking orders by West European governments, tying up almost all of Iran's official assets. Some of the L/Cs that are being opened apparently carry risk premiums. [redacted] 25X1

Chaos in the Iranian banking system has made it difficult for Tehran to sort out trade financing problems; inadequate -- sometimes conflicting -- instructions are being sent to customers, branch banks, and correspondent banks. Lack of management and direction as a result of the flight of key personnel are largely responsible for the chaos. Indeed with careful management, the solution to the US asset freeze would be relatively simple: the government need only maintain deposits exclusively in non-US banks and cancel outstanding letters of credit that would channel money into blocked accounts. However, given the erratic behavior and divided nature of Iran's government and banks, the process of establishing new orderly relations with non-US banks will take time and depend heavily on assistance from foreign bankers and traders. [redacted] 25X1

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